

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

SB 3763 – HB 3761

March 14, 2012

SUMMARY OF AMENDMENT (014584): Decreases, from 5.50 percent to 5.25 percent, the state sales tax rate on the retail sale of food and food ingredients.

FISCAL IMPACT OF ORIGINAL BILL:

Decrease State Revenue – Net Impact - \$17,065,500

Increase Local Revenue – Net Impact – Exceeds \$410,200

According to the Department of Finance and Administration, the Division of Budget, the Governor's proposed budget for FY12-13 reflects a recurring decrease in state revenue to the General Fund of \$18,000,000 per year.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Decrease State Revenue – Net Impact - \$21,331,900

Decrease Local Revenue – Net Impact – \$737,200

According to the Department of Finance and Administration, the Division of Budget, the Governor's proposed budget for FY12-13 reflects a recurring decrease in state revenue to the General Fund of \$18,000,000 per year.

Assumptions applied to amendment:

- According to the Department of Revenue, state sales tax collections derived from food and food ingredients in FY10-11 were \$489,939,858.44.
- Based on historical growth rates for food sales, retail sales of food and food ingredients grow by two percent per year.
- Under current law, state sales tax collections derived from the retail sale of food and food ingredients is estimated to be \$509,733,429 (\$489,939,858.44 x 102.0% x 102.0%) for FY12-13.
- Under current law, taxable sales of food and food ingredients for FY12-13 are estimated to be \$9,267,880,527 (\$509,733,429 / 5.5%).

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- Under this bill as amended, state sales tax collections derived from the retail sale of food and food ingredients is estimated to be \$486,563,728 ($\$9,267,880,527 \times 5.25\%$) for FY12-13.
- The recurring decrease in state sales tax revenue attributable to the tax rate reduction is estimated to be \$23,169,701 ($\$509,733,429 - \$486,563,728$) for FY12-13. This number is assumed to remain constant in subsequent years.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of all state sales tax revenue as state-shared sales tax revenue.
- Local governments are not held harmless from the loss of state-shared sales tax revenue under this bill as amended.
- The recurring decrease in local revenue pursuant to the state-shared allocation is estimated to be \$1,064,069 ($\$23,169,701 \times 4.5925\%$).
- The net recurring decrease in state sales tax revenue attributable to the tax rate reduction on food and food ingredients is estimated to be \$22,105,632 ($\$23,169,701 - \$1,064,069$).
- Fifty percent of tax savings will be spent in the economy on other non-food sales-taxable goods and services.
- The current state sales tax rate levied on non-food sales-taxable goods and services is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- The net recurring increase in state sales tax revenue as a result of 50 percent of tax savings being spent in the economy on other non-food sales-taxable goods and services is estimated to be \$773,697 [$(\$23,169,701 \times 50.0\% \times 7.0\%) - (\$23,169,701 \times 50.0\% \times 7.0\% \times 4.5925\%)$].
- The recurring increase in state-shared sales tax revenue apportioned to local governments as a result of 50 percent of tax savings being spent on other non-food sales-taxable goods and services is estimated to be \$37,242 ($\$23,169,701 \times 50.0\% \times 7.0\% \times 4.5925\%$).
- The total recurring increase in local revenue as a result of 50 percent of tax savings being spent on other non-food sales-taxable goods and services, which includes additional local option sales tax revenue and additional state-shared sales tax revenue, is estimated to be \$326,863 [$(\$23,169,701 \times 50.0\% \times 2.5\%) + \$37,242$].
- The net recurring decrease in state revenue as a result of this bill as amended is estimated to be \$21,331,935 ($\$22,105,632 - \$773,697$).
- The net recurring decrease in local revenue as a result of this bill as amended is estimated to be \$737,206 ($\$1,064,069 - \$326,863$).

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

/rnc